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TAGS: ECON ETRD TH
SUBJECT: THAILAND AND THE END OF GSP: WHO LOSES, WHO WINS?

¶1. Summary: Thai manufacturers exporting to the U.S. under the Generalized System of Preferences (GSP) program predict that if GSP benefits are redirected from Thailand, the primary beneficiary would be China rather than other GSP users. China competes fiercely with Thai exports and is already quickly dominating many of Thailand's traditional export markets despite preferential tariff treatment. For the U.S., the net result of eliminating GSP benefits for Thailand would likely be a broadening of our substantial trade deficit with China and little change in trade with other GSP users. Thailand would likely see curtailment of certain export industries and a serious blow to many small and medium-sized enterprises (SME) that both directly export and support export industries. One means to limit the inevitable political and economic fallout, and distribute benefits more widely, would be to target GSP restructuring to product categories where less developed countries have a demonstrated production capacity and potential to compete in export markets. End Summary.

¶2. Thailand is one of the top users of U.S. GSP benefits, exporting more than USD 3.5 billion in products tariff-free under the program in 2005, 18 percent of Thailand's total exports to the U.S. Exports under GSP through May of 2006 are up 32.6 percent year-on-year from 2005, placing Thailand just behind India as the leading user of GSP worldwide. Chief exports under the program include jewelry, televisions, radial tires and a host of other diverse products. Two top exports for 2005, plastic sacks and bags and aluminum cookware, were eliminated as GSP-eligible products for Thailand on July 1 after the 2005 GSP review.

GSP removal a gift to China

¶3. Leading exporters in the electronics, jewelry and plastics industries made clear to Econoff that elimination of GSP benefits for their exports would greatly affect their competitiveness and quickly lead to a loss of export market share to their fastest growing competitor, China. In nine out of Thailand's top ten exports under GSP, which together account for more than one-third of Thailand's GSP exports, China is one of the top three exporters to the U.S.

¶4. The jewelry industry, which incorporates nearly a quarter of all Thailand's GSP exports, competes directly with China and India in numerous export categories. The three competitors have long traditions of jewelry craftsmanship and strong export industries, but industry experts see China as the chief beneficiary of export growth if GSP benefits are eliminated. Although Thai exporters naturally consider their workmanship superior to that of China's, jewelers complain that China's substantial mineral resources give it a natural advantage, and their undervalued currency give it an artificial advantage over Thai exports. Although the jewelry industry is well entrenched in other export markets, nearly half of Thailand's jewelry exports are to the U.S. and are a vital part of the industry's revenues.

¶5. Electronics industry representatives told Econoff that TV manufacturers had already lost price competitiveness to China and were competing for the moment on superior quality, but were convinced their survival depended in large part on continued GSP benefits. Manufacturers pointed to China's rapid growth in market share as a foreboding portent of things to come (In 2001, China exported USD 141 million in color televisions (HTS 852812) to the U.S.; in 2005 the number was USD 2.2 billion. 2006 exports are up nearly 70% yoy.)

Other GSP users won't even get the crumbs

¶6. Thailand competes very infrequently in GSP categories with other GSP users (with the exception of the other top users of GSP, Brazil, India and Indonesia) and virtually not at all with least developed countries. In examining trade statistics on Thailand's top 25 exports to the U.S. under GSP, it is clear that Thailand's primary competition is from China, the developed world, and other top users of GSP. In only two categories out of Thailand's top 25 GSP exports could it remotely be said that another non-top GSP user is considered a competitor. Removal of GSP benefits for Thailand would likely increase export share for its current competitors, but hardly at all for any other GSP user.

¶7. As an example, Thailand's second largest export under GSP is televisions incorporating a VCR or player (HTS 85281228). The export market is completely dominated by only three countries, Malaysia, Thailand and China; no other country has exported TVs under that category thus far in 2006. Thai TV manufacturers told Econoff they faced little overall competition from other GSP users and were confident that any loss of market share for Thailand would inevitably pass to China. None were able to point to a least developed country with sufficient manufacturing capacity to pick up any decline in Thailand's exports.

SMEs will take the hit

¶8. Thailand's major GSP users are typically SMEs in labor-intensive industries. The jewelry industry employs nearly one million people working in thousands of small factories around Bangkok and a number of other nearby provinces. Nearly 80 percent of jewelry manufacturers are SMEs, most employing between five and thirty craftsmen. With a small domestic market, nearly every jewelry manufacturer produces for export, primarily to the U.S. The plastics industry calculated that five percent of plastics manufacturers were considered large (more than 500 employees), 30 to 40 percent medium-sized and the rest small (10 - 50 employees). Industry leaders predicted that large firms could survive a loss in GSP, but that SMEs would be hit the hardest, estimating that 30,000 of the industry's 200,000 workers would be affected.

¶9. Although the electronics industry is dominated by large, foreign-invested firms, industry reps pointed to their supply chain as predominantly SMEs which would suffer from a loss of GSP for electronics exports. Television manufacturing, once little more than assembly of imported parts, now sources 80 percent of its component parts from Thai-owned domestic suppliers. Including the supply chain, the industry employs approximately 100,000 workers.

Some CNL waivers outlived their usefulness

¶10. Thailand currently receives Competitive Need Limit (CNL) waivers in ten export categories, though only a few appear to be necessary. For buffalo leather (HTS 41071940 and HTS 41079940), Thailand has not exported under this customs heading for years. In two others (ceiling fans HTS 84145130 and electrostatic photocopying apparatus HTS 90091200), trade statistics for 2006 show Thailand's once vibrant export market has been lost almost completely to China. In two other categories (ignition wiring sets HTS 85443000 and artificial flowers HTS 67029065), exports have declined and appear to be safely under the maximum export limits under GSP rules.

¶11. Thailand's remaining CNL waivers are in jewelry (HTS 71131120, 71131150 and 71131950) and televisions (HTS 85281228). Although

Thailand surpasses value or percentage limits in three of these categories, keeping GSP treatment appears to be crucial to maintaining market share against strong competition from China in these categories as noted previously.

¶12. Comment: Consideration of GSP restructuring has focused on shifting benefits to the least developed countries and those with weaker export industries. However, eliminating Thailand's GSP benefits would appear to be counterproductive, resulting in production shifting largely to China rather than other GSP users. Net results for the U.S. would be an even wider trade deficit with China and a smaller trading relationship with our long-time key ally in Thailand. In contrast to a number of other trading partners, Thailand has been a constructive partner in bilateral and multilateral trade arenas. However, we have heard rumors that the RTG is considering tying renewal of U.S. investment privileges under the Treaty of Amity and Economic Relations (AER) to renewal of GSP benefits.

¶13. The Thai public will inevitably consider an end of GSP benefits as retribution for lack of progress in bilateral FTA talks with the U.S. To limit political fallout, and better distribute benefits, a restructured GSP program could target product categories where less developed countries have an established industry and the potential to effectively compete if leading GSP users, including Thailand, were withdrawn from those categories. Alternatively, or perhaps additionally, GSP benefits could be expanded to products where less developed countries have shown export potential but continue to face tariff barriers. End Comment.
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